

## **COUNTY DEBT POLICY**

The County has a separate policy that covers the issuance, management and administration of long term debt. The policy requires, in general, that:

1. Debt will not be used to finance ongoing operational costs.
2. Whenever possible, the County will pursue alternative sources of funding in order to minimize the level of debt.
3. That whenever practical, voter approval on the method of debt shall be utilized.

More specifically, the policy includes guidelines on the following elements:

1. The policy allows for the issuance of variable rate obligations to the extent that they do not exceed 25% of total debt outstanding.
2. The policy details the guidelines to be followed prior to the issuance of variable rate debt including feasibility, structure, and annual analysis to determine advisability of conversion to fixed rate debt.
3. The policy requires that the term of bonds be no longer than the economic useful life of the property, or in excess of available payment streams.
4. The policy requires annual review of the County's portfolio of long term obligations to initiate any type of restructuring, refunding, or refinancing beneficial to the County.
5. The policy outlines requirements for the investment of bond proceeds.
6. The policy outlines the responsibilities of the County's Debt Advisory Committee, which is a formal committee of the Board of Supervisors. These responsibilities include oversight and review of all debt policy and debt issuance activities and to make recommendations to the Board of Supervisors regarding appropriate actions on debt matters.

## **CASH FUNDED PROJECTS**

As detailed above, County policy requires prudent management of liabilities and, whenever possible, alternative sources of funding in order to minimize the level of debt. In the past several years, the County has satisfied certain portions of its capital needs without the issuance of long term debt. This includes the major projects listed below:

- The cash purchase of the High Desert Detention Center (formerly known as the Adelanto Adult Detention Facility). This project was completed in January 2006.
- The cash purchase and renovation of an office building in downtown San Bernardino. This project was completed in July 2007.
- The cash funding of a major remodel of the 6th floor of the Arrowhead Regional Medical Center (ARMC) to convert it from administrative space to a medical/surgery wing. This project was completed in October 2009.
- The cash funding of a new medical office building at the ARMC. This project was completed in September 2010.
- The cash funding of a new High Desert Government Center in Hesperia. This project was completed in October 2010.
- The cash funding of the new Central Valley Juvenile Detention and Assessment Center. This project was completed in February 2011.
- The cash funding of a Public Safety Operations Center at the High Desert Government Center. This project was completed in May 2013.
- The cash funding of the County's portion of the High Desert Detention Center Expansion which is funded by a combination of State grant monies and a County contribution. This project was completed in January 2014.



- The cash funding of the County Buildings and Acquisition and Retrofit Project (formerly named the Downtown Building Project) (in progress).
- The cash funding of the expansion and remodel of the Sheriff's Crime Lab (in progress).

### **COUNTY BUDGETING POLICY AS IT RELATES TO LONG TERM DEBT**

The County's Budgeting Policy includes policies related to long term debt of the County. These include:

1. Retirement System Funding - Requires that the Board first consider setting aside any savings related to negative Unfunded Accrued Actuarial Liability to fund a reserve for reduction of any existing pension obligation bonds or as a hedge against future interest rate increases.
2. Use of Variable Rate Interest Savings - Requires that when amounts budgeted for variable rate interest expense on long-term debt exceeds actual variable rate interest expense for the year, that such savings will be used in the succeeding fiscal year to reduce the outstanding principal of long-term debt. This applies only to debt service paid from discretionary revenue sources of the General Fund. It is normal for budgeted amounts to exceed actual amounts because debt covenants require conservative budgeting of variable rate interest expense.

Note: The County currently has no variable rate debt service that is paid from discretionary revenue sources of the General Fund. The County optionally redeemed all such certificates of participation in September 2010.

3. Use of Savings from Interest Rate Swap Agreements Associated with the Issuance of Debt - Requires that any County benefit realized on interest rate swap agreements, when there is a potential mismatch between swap payments and debt service payments, be retained as a contingency to offset the County's share of increases in debt service caused by the swap agreement. This contingency amount will not exceed \$5.0 million per interest rate swap agreement.

Note: The County currently has no interest rate swaps outstanding and has no plan to enter into an interest rate swap.



## **COUNTY LONG TERM DEBT**

The following discussion relates to long-term debt backed by the full faith and credit of the County's General Fund<sup>(1)</sup>. Other long term debt of County entities, such as that of the County's Flood Control District and the County's Special Districts, are found later in this section of the budget book.

The County's outstanding long term debt has been issued for the following purposes:

- To finance or refinance construction and improvement of County structures.
- To refinance County pension obligations.

The County finances such projects with a variety of debt instruments. For construction and improvement projects, the County has utilized lease obligations with a non-profit public benefit corporation. Such obligations are in the form of Certificates of Participation and, for the 2012 refinancing of the West Valley Detention Center, a Private Placement with a financial institution. For pension obligations, the County has issued Pension Obligation Bonds.

As of June 30, 2014, the County's long term obligations include debt issued to finance or partially finance the following projects:

- Construction and equipping of the ARMC,
- Construction of the West Valley Detention Center,
- Construction of the Foothill Law and Justice Center and hangars at the Chino Airport, and
- Refinancing of a portion of the County's Unfunded Accrued Actuarial Liability in the years 1995, 2004 and 2008.

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(1) In June of 2007 the County privately placed \$18.4 million of revenue bonds for Courthouse improvements. These bonds are secured solely by a surcharge on civil filings that is collected by the local courts. These bonds are not backed by the County's General Fund and are, therefore, not included in this discussion. For more information on the surcharge revenues see the 'Courthouse Seismic Surcharge' budget unit found in the Law and Justice section of this budget book.



**County of San Bernardino**  
**Outstanding General Fund Certificates of Participation and Pension Obligation Bonds**  
**Budgetary Basis**

Fiscal Year Ending June 30	Pension Obligation Bonds						Certificates of Participation		Private Placement		Total Outstanding General Fund Debt	Fiscal Year Ending June 30
	2008		2004		1995		2002		2012			
	Pension Obligation Bonds		Pension Obligation Bonds <sup>(1)</sup>		Pension Obligation Bonds		Justice Center Refunding		WVDC Refunding <sup>(2)</sup>			
	\$160,900,000		\$463,895,000		\$386,265,591		\$68,100,000		\$51,585,000			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2015	920,000	9,418,290	20,020,000	14,127,066	12,401,627	37,653,373	5,950,000	607,750	7,200,000	888,159	109,186,265	2015
2016	1,035,000	9,359,445	23,355,000	12,918,239	12,035,880	40,619,120	6,205,000	310,250	7,375,000	699,099	113,912,032	2016
2017	1,060,000	9,296,385	27,025,000	11,491,751	11,673,496	43,711,504			7,565,000	505,305	112,328,440	2017
2018	1,130,000	9,230,466	31,015,000	9,825,205	11,361,080	46,888,920			7,755,000	306,581	117,512,252	2018
2019	19,990,000	8,594,754	16,235,000	8,453,186	11,054,980	50,205,020			7,940,000	102,994	122,575,933	2019
2020	15,860,000	7,515,669	25,000,000	7,179,750	10,753,631	53,666,369			-	-	119,975,419	2020
2021	20,880,000	6,409,795	25,000,000	5,584,250	10,507,053	57,227,947			-	-	125,609,045	2021
2022	26,200,000	4,992,687	25,000,000	3,988,750	9,790,585	58,119,415			-	-	128,091,437	2022
2023	31,875,000	3,244,630	25,000,000	2,393,250	-	-			-	-	62,512,880	2023
2024	37,960,000	1,142,596	25,000,000	797,750	-	-			-	-	64,900,346	2024
2025	-	-	-	-	-	-			-	-	-	2025
2026	-	-	-	-	-	-			-	-	-	2026
2027	-	-	-	-	-	-			-	-	-	2027
2028	-	-	-	-	-	-			-	-	-	2028
2029	-	-	-	-	-	-			-	-	-	2029
Totals	156,910,000	69,204,716	242,650,000	76,759,195	89,578,331	388,091,669	12,155,000	918,000	37,835,000	2,502,138	1,076,604,049	Totals

(1) Debt schedules for variable rate issues are based on the estimated average interest rate at the time of issuance and do not reflect amounts budgeted for the 2014-15 fiscal year.

(2) West Valley Detention Center

**Debt Service Budget Information:**

The 1995, 2004 and 2008 Pension Obligation Bonds are budgeted in individual department budgets as a portion of salary and benefit expense.

The General Fund Certificates of Participation, and the Private Placement, are budgeted in the Administration Section of this budget book in the Capital Facilities Leases budget.



County of San Bernardino  
Outstanding Enterprise Fund Certificates of Participation  
Budgetary Basis

Certificates of Participation										
Fiscal Year Ending June 30	Arrowhead Refunding County Medical Center Series 2009 \$288,730,000		County Medical Center Series 1996 \$65,070,000		County Medical Center Series 1995 \$147,565,000		County Medical Center Series 1994 \$213,605,000		Total Outstanding Enterprise Fund Debt	Fiscal Year Ending June 30
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2015	11,405,000	12,765,688	420,000	3,152,550	3,955,000	1,008,963	4,445,000	5,886,088	43,038,288	2015
2016	11,905,000	12,203,638	445,000	3,129,844	4,225,000	743,113	4,695,000	5,634,738	42,981,331	2016
2017	12,445,000	11,605,400	465,000	3,105,956	4,505,000	459,388	4,965,000	5,369,088	42,919,831	2017
2018	13,090,000	10,972,838	490,000	3,081,500	4,815,000	156,488	5,235,000	5,088,588	42,929,413	2018
2019	24,405,000	10,035,463	515,000	3,056,375				4,944,625	42,956,463	2019
2020	25,685,000	8,774,650	545,000	3,029,875				4,944,625	42,979,150	2020
2021	15,015,000	7,711,050	570,000	3,002,000			12,180,000	4,518,325	42,996,375	2021
2022	16,330,000	6,860,250	600,000	2,972,750			12,570,000	3,746,350	43,079,350	2022
2023	17,165,000	5,985,113	630,000	2,942,000			13,290,000	3,035,200	43,047,313	2023
2024	32,355,000	4,718,766	665,000	2,909,625	-	-		2,669,725	43,318,116	2024
2025	34,065,000	3,016,753	695,000	2,875,625	-	-		2,669,725	43,322,103	2025
2026	22,935,000	1,541,794	735,000	2,839,875	-	-	13,060,000	2,343,225	43,454,894	2026
2027	17,900,000	469,875	7,120,000	2,643,500	-	-	13,725,000	1,673,600	43,531,975	2027
2028	-	-	24,030,000	1,864,750	-	-	13,675,000	1,005,694	40,575,444	2028
2029	-	-	25,280,000	632,000	-	-	14,335,000	340,456	40,587,456	2029
Totals	254,700,000	96,661,275	63,205,000	41,238,225	17,500,000	2,367,950	112,175,000	53,870,050	641,717,500	Totals

**Debt Service Budget Information:** The 1994, 1995, 1996 and 2009 Medical Center Certificates of Participation are budgeted in the Arrowhead Regional Medical Center section of this budget book in the Medical Center Lease Payments budget.

**Effects of Existing Debt Levels on Current and Future Operations**

Debt service on the Certificates of Participation and Pension Obligation Bonds referenced in the previous schedules will not negatively affect current or future operations of the County. In aggregate, current required debt service expenditures remain relatively level (increasing less than 4% per year) for all fiscal years through 2021-22 and then drop significantly in succeeding years.

**Other County Long Term Debt**

The County Library has a note payable to the California Infrastructure and Economic Development Bank for funds borrowed to finance the construction of a library in Apple Valley. This note is backed by the full faith and credit of the General Fund; however it is paid from and budgeted in the County Library budget, found in the Operations and Community Services section of this budget book. The outstanding principal amount of this note as of June 30, 2013, the last date for which audited information is available, was \$1,444,111. Annual debt service on this obligation is approximately \$109,000 per year through fiscal year 2030-31.



**FLOOD CONTROL DISTRICT LONG TERM DEBT**

The following discussion relates to the long term debt of the County's Flood Control District. As of June 30, 2014, the County's Flood Control District's (District) outstanding long term obligations include debt issued for the following purposes:

- To pay the District's obligation under a settlement agreement relating to an inverse condemnation action against the District.
- To refinance a loan from the United States Bureau of Reclamation for the construction of the San Sevaine Creek Water Project.

The District financed these obligations with Judgment Obligation Bonds and Refunding Bonds.

County of San Bernardino  
Outstanding Flood Control District Judgment Obligation Bonds  
Budgetary Basis

Fiscal Year Ending June 30	Judgment Obligation Bonds				Refunding Bonds		Total Outstanding District Debt	Fiscal Year Ending June 30
	2007		2008		2007			
	Series A		Refunding Remarketing		Refunding Bonds			
	\$58,355,000		\$37,295,000		\$23,845,000			
	Principal	Interest	Principal	Interest	Principal	Interest		
2015	2,330,000	2,054,669		1,808,808	1,715,000	744,325	8,652,801	2015
2016	2,435,000	1,955,644		1,810,879	1,815,000	650,000	8,666,523	2016
2017	2,530,000	1,858,244		1,806,736	1,910,000	559,250	8,664,230	2017
2018	2,630,000	1,757,044		1,808,808	2,010,000	463,750	8,669,601	2018
2019	2,735,000	1,651,844		1,808,808	2,115,000	363,250	8,673,901	2019
2020	2,820,000	1,528,769		1,810,879	2,230,000	257,500	8,647,148	2020
2021	2,985,000	1,401,869		1,806,736	2,920,000	146,000	9,259,605	2021
2022	3,115,000	1,271,275		1,808,808			6,195,083	2022
2023	3,255,000	1,131,100		1,808,808			6,194,908	2023
2024	3,405,000	984,625		1,810,879			6,200,504	2024
2025	3,520,000	831,400		1,806,736			6,158,136	2025
2026	3,715,000	673,000		1,808,808			6,196,808	2026
2027	3,900,000	487,250		1,808,808			6,196,058	2027
2028	4,095,000	292,250		1,810,879			6,198,129	2028
2029	1,750,000	87,500	1,915,000	1,806,736			5,559,236	2029
2030			3,815,000	1,715,930			5,530,930	2030
2031			3,935,000	1,530,903			5,465,903	2031
2032			4,135,000	1,341,590			5,476,590	2032
2033			4,355,000	1,138,202			5,493,202	2033
2034			4,490,000	928,290			5,418,290	2034
2035			4,675,000	710,525			5,385,525	2035
2036			4,885,000	484,342			5,369,342	2036
2037			5,090,000	246,582			5,336,582	2037
Totals	45,220,000	17,966,481	37,295,000	35,228,477	14,715,000	3,184,075	153,609,033	Totals

**Debt Service Budget Information:**

The Judgment Obligation Bonds and Refunding Bonds are budgeted in the District's budget as a portion of operating expenses.

The District's budget is found in the Operations and Community Services section of this budget book in the Public Works, Flood Control District budget.



**Effects of Existing Debt Levels on Current and Future Operations**

Debt service on the Judgment Obligation Bonds and Refunding Bonds referenced in the previous schedule will not negatively affect current or future operations of the District. In aggregate, current required debt service expenditures remain level for all fiscal years through 2020-21, and then drop by nearly 30% as a result of the scheduled maturity of the 2007 Refunding Bonds.

**Other Flood Control Long Term Debt**

The District owes \$4.0 million to the United States Army Corps of Engineers for the construction of the San Timoteo Creek Project. The District has agreed to pay the loan with accrued interest upon completion of the project over a twenty year period. It is anticipated that the project will be completed in 2017.



**SPECIAL DISTRICTS DEPARTMENT LONG TERM DEBT**

The following discussion relates to long term debt of the County's Special Districts (Districts). The Districts' outstanding long term debt has primarily been issued to finance or refinance construction and improvements in County service areas. The Districts' finance such projects with general obligation bonds and notes. As of June 30, 2014, the Districts' long term obligations include debt issued to finance or partially finance:

- Sewer and water facilities/systems
- Road improvements

The Special Districts have financed projects using general obligation bonds, and for the 2006 note for CSA 70-Zone G (Wrightwood), a loan from a private financial institution, and for the CSA 70 – Zone J (Oak Hills), a loan from the California Infrastructure and Economic Development Bank.

County of San Bernardino Special Districts'  
Outstanding General Obligation Bonds and Notes Payable  
Budgetary Basis

Fiscal Year Ending June 30	General Obligation Bonds		Notes Payable				Total Outstanding District Debt	Fiscal Year Ending June 30
	CSA 70 - Zone W-1 (EES)		CSA 70 - Zone G		CSA 70 - Zone J			
	Landers Water		Wrightwood		Oak Hills			
	1979 Issue		2006 Issue		2003 Issue			
	\$1,540,000		\$724,000		\$2,269,521			
	Principal	Interest	Principal	Interest	Principal	Interest		
2015	70,000	20,250	86,324	13,076	60,214	49,525	299,389	2015
2016	75,000	16,750	91,898	7,502	62,075	47,635	300,860	2016
2017	80,000	13,000	47,064	1,536	63,993	45,688	251,281	2017
2018	85,000	9,000	-	-	65,970	43,680	203,650	2018
2019	95,000	4,750	-	-	68,008	41,610	209,368	2019
2020	-	-	-	-	70,110	39,477	109,587	2020
2021	-	-	-	-	72,276	37,277	109,553	2021
2022	-	-	-	-	74,510	35,009	109,519	2022
2023	-	-	-	-	76,812	32,671	109,483	2023
2024	-	-	-	-	79,186	30,261	109,447	2024
2025	-	-	-	-	81,632	27,776	109,408	2025
2026	-	-	-	-	84,155	25,214	109,369	2026
2027	-	-	-	-	86,755	22,574	109,329	2027
2028	-	-	-	-	89,436	19,852	109,288	2028
2029	-	-	-	-	92,199	17,046	109,245	2029
2030	-	-	-	-	95,048	14,153	109,201	2030
2031	-	-	-	-	97,985	11,170	109,155	2031
2032	-	-	-	-	101,013	8,095	109,108	2032
2033	-	-	-	-	104,135	4,926	109,061	2033
2034	-	-	-	-	107,352	1,659	109,011	2034
Totals	405,000	63,750	225,286	22,114	1,632,864	555,298	2,904,312	Totals

**Debt Service Budget Information:**

The CSA 70 Zone W-1 debt service is paid directly from the property taxes assessed for this purpose, and is, therefore, not included in the District's budget.

The CSA 70 Zone G debt service is budgeted in the Special Districts Department section of this budget book in the Road Districts Special Revenue Funds – Consolidated budget (Fund SLK).

The CSA 70 Zone J debt service is budgeted in the Special Districts Department section of this budget book in the Water Districts Enterprise Funds – Consolidated budget (Fund ECA).





**Effects of Existing Debt Levels on Current and Future Operations**

Debt service on the Districts' debt referenced in the previous schedule will not negatively affect current or future operations.

**Other Special Districts Long Term Debt**

There are various general obligation bonds for Special Districts that have matured but have not yet been redeemed by bondholders. These bearer coupon bonds will be paid from a reserve fund at such time the bonds are presented for redemption.



**LEGAL DEBT LIMIT**

The County's legal debt limit, which applies only to General Obligation Bonds, is 1.25% of Assessed Valuation. As of June 30, 2013, the last date for which audited information on outstanding debt is currently available, the County's Debt limit and legal debt margin were calculated as follows:

<b>Fiscal Year</b>	<b>Assessed Valuation</b>	<b>Legal Debt Limit</b>	<b>Bonded Debt</b>	<b>Legal Debt Margin</b>
2012-13	166,760,684	2,084,509	1,005	2,083,504

Amounts in thousands

Source: San Bernardino County Comprehensive Annual Financial Report for the year ended June 30, 2013

The County General Fund and the County Flood Control District have no outstanding General Obligation Bonds. The Debt referred to in the table above is the debt of the County's Special Districts Department.

**DEBT PER CAPITA**

<b>Governmental Activities</b>						
<b>Fiscal Year</b>	<b>Certificates of Participation</b>	<b>Revenue Bonds</b>	<b>Bonds and Notes</b>	<b>Capital Lease Obligation</b>	<b>Other Long Term Liabilities</b>	<b>Total Governmental Activities</b>
2012-13	\$23,047	401,404	565,143	743	4,000	\$994,337
<b>Business Type Activities</b>						
<b>Fiscal Year</b>	<b>Certificates of Participation</b>	<b>General Obligation Bonds</b>	<b>Notes</b>	<b>Capital Lease Obligation</b>		<b>Total Business Type Activities</b>
2012-13	\$433,822	1,005	1,691	6,091		\$442,609
<b>Total Outstanding Debt</b>						
<b>Fiscal Year</b>	<b>Certificates of Participation</b>	<b>Bonds</b>	<b>Notes</b>	<b>Capital Lease Obligation</b>	<b>Other Long Term Liabilities</b>	<b>Total Outstanding Debt</b>
2012-13	\$456,869	402,409	566,834	6,834	4,000	\$1,436,946
<b>Debt Per Capita</b>						
<b>Fiscal Year</b>	<b>Total Outstanding Debt</b>	<b>Population</b>	<b>Debt Per Capita</b>			
2012-13	\$1,436,946	2,076	\$692			

Amounts in thousands (except per capita)

Source: San Bernardino County Comprehensive Annual Financial Report for the year ended June 30, 2013

